

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE CAPE AGULHAS MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Cape Agulhas Municipality which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages X to XX.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2008 (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 et seq. of the Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Cape Agulhas Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Cape Agulhas Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

Without qualifying my audit opinion, I draw attention to the following matters:

#### **Amendments to the applicable basis of accounting**

9. As set out in accounting policy note 1.1 to the municipality's financial statements, the municipality has adopted the transitional provisions allowed by Directive 4: "Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities" as issued by the Accounting Standards Board.

#### **Irregular expenditure**

10. As disclosed in note 33.03 to the financial statements, irregular expenditure amounting to R5 265 750 was incurred during the year as a new supply chain management process had not been followed or the agreement with the former housing development agent extended after it had expired on 31 December 2006. This related to the building of 250 low-cost houses at Napier after an agreement amounting to R20 556 000 was entered into with the Department of Local Government and Housing on 11 December 2008. Since the matter was identified during the audit, it has not yet been dealt with in terms of section 32 of the MFMA.
11. A payment of R45 500 (excluding VAT) was made to a contractor without following the formal competitive price quotation process per the supply chain management policy. This amount was not disclosed as irregular expenditure in note 33.03 of the financial statements and the matter has not yet been dealt with in terms of section 32 of the MFMA.

#### **Unauthorised expenditure**

12. Capital expenditure amounting to R228 322 was expensed as repairs and maintenance during the 2008-09 financial year for which no provision was made in

the capital budget. This unauthorised expenditure was not disclosed in note 33.01 of the financial statements.

#### **Restatement of prior year figures due to change in accounting policy**

13. As disclosed in notes 29 and 30 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of changes to the accounting policies and errors discovered during 2009 in the financial statements of the Cape Agulhas Municipality at, and for the year ended, 30 June 2008.

#### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Material inconsistencies in other information included in the annual report**

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

15. The supplementary information set out on pages XX to XX (appendices C to F) does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **Material losses**

16. A distribution loss of 16,9% (358 479 kl) on water was incurred during the 2008-09 financial year.

#### **Governance framework**

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

#### **Key governance responsibilities**

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
	<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>		
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input checked="" type="checkbox"/>	
	<b>Quality of financial statements and related management information</b>		
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input checked="" type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input checked="" type="checkbox"/>
	<b>Timeliness of financial statements and management information</b>		
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.		<input checked="" type="checkbox"/>
	<b>Availability of key officials during audit</b>		
5.	Key officials were available throughout the audit process.	<input checked="" type="checkbox"/>	
	<b>Development and compliance with risk management, effective internal control and governance practices</b>		
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> <li>The audit committee operates in accordance with approved, written terms of reference.</li> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	<input checked="" type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> <li>The internal audit function operates in terms of an approved internal audit plan.</li> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>	<input checked="" type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input checked="" type="checkbox"/>	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input checked="" type="checkbox"/>	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input checked="" type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		<input checked="" type="checkbox"/>

No.	Matter	Y	N
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input checked="" type="checkbox"/>	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		<input checked="" type="checkbox"/>
14.	SCOPA resolutions have been substantially implemented.		N/A
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input checked="" type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		<input checked="" type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets as set out in section 68 of the MFMA.	<input checked="" type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input checked="" type="checkbox"/>	

19. The material misstatements identified and corrected in the financial statements mainly resulted from a lack of control activities selected and developed to mitigate the risk over financial reporting as well as appropriate internal control activities not being identified in a timely manner to allow for corrective actions to be taken. This situation could have led to the qualification of the financial statements had the municipality not adjusted their financial statements during the audit, based on my findings.

20. This is indicative of a situation where ongoing monitoring by the finance department is not sufficient to assess the effectiveness of internal control over financial reporting.

21. Actions implemented by management to address the prior year's audit findings during the 2008-09 financial year proved to be less effective than anticipated as a number of those findings recurred. No risk assessment process was performed during the 2008-09 financial year to identify risks relating to misstatements on the financial statements due to the conversion from IMFO to GRAP as well as the reliability of the reported performance information. These risks should have been addressed in the internal audit plan and monitored by the audit committee.

22. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:

- develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and complete financial statements
- produce monthly financial accounts for review by management
- subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of controls around the preparation of the financial statements.

23. Adequate control processes and procedures should be designed and implemented to facilitate the preparation of a performance report that is accurate and complete and available for internal and external review in a timely manner. This requires urgent attention from the accounting officer with the support of internal audit and the performance audit committee to ensure compliance with section 40 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

24. I have reviewed the performance information as set out on pages XX to XX.

### **The accounting officer's responsibility for the performance information**

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

27. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

## **Findings on performance information**

### **Non-compliance with regulatory requirements**

#### **Functioning of performance audit committee**

29. The performance audit committee did not:

- meet at least twice during the financial year
- review the Cape Agulhas Municipality's performance management system and make recommendations in this regard to the council of the Cape Agulhas municipality.

### **Internal auditing of performance measurements**

30. The internal audit processes and procedures did not include assessments of the functionality of the Cape Agulhas Municipality's performance management system and whether the system complied with the requirements of the MSA.

### **Reported performance information not reliable**

#### **Lack of source documentation**

31. The reported actual achievement of 35 key performance indicators could not be substantiated by adequate source documentation.

#### **Source information not accurate and complete**

32. The source information or evidence provided to support the reported performance information with regard to eight key performance indicators did not adequately support the accuracy and completeness of the reported information.

## APPRECIATION

33. The assistance rendered by the staff of the Cape Agulhas Municipality during the audit is sincerely appreciated.

*Auditor-General*  
Cape Town

7 December 2009



*Auditing to build public confidence*